

The Commonwealth of Massachusetts DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 08-8-A October 1, 2008

Joint Petition of Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid of its 2008 Revised Energy Efficiency Plan.

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FOR: MASSACHUSETTS ELECTRIC COMPANY AND

NANTUCKET ELECTRIC COMPANY, D/B/A NATIONAL

GRID Petitioner D.P.U. 08-8-A

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I. INTRODUCTION

On March 27, 2008, Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid (together, "National Grid" or "Company") filed with the Department of Public Utilities ("Department") its electric energy efficiency plan for calendar year 2008 ("2008 Plan"). National Grid filed its 2008 Plan pursuant to G.L. c. 25, § 19, G.L. c. 25A, § 11G, and Order Promulgating Final Guidelines to Evaluate and Approve Energy Efficiency Programs, D.T.E. 98-100 (2000) ("Energy Efficiency Guidelines"). This matter was docketed as D.P.U. 08-8.

By Letter Order dated July 25, 2008, the Department directed all Massachusetts energy efficiency Program Administrators² to submit a proposal to increase spending for residential heating programs for the 2008 winter season, stating that "there is an urgent need to expand funding for existing residential gas and electric energy efficiency programs in order to respond to the potential for very high heating costs in the coming months." Request to Increase

Funding for Residential Energy Efficiency Programs, Letter Order (July 25, 2008) ("Letter

On that same date, an offer of settlement ("Settlement") was submitted jointly by National Grid, Associated Industries of Massachusetts, the Conservation Law Foundation, The Energy Consortium, the Low-Income Energy Affordability Network, Massachusetts Climate Action Network, and the Northeast Energy Efficiency Council.

Program Administrators are those entities that administer energy efficiency programs, including distribution companies and municipal aggregators. Energy Efficiency Guidelines § 2.

Order").³ National Grid submitted its proposal to increase funding for residential energy efficiency programs on August 15, 2008 ("Revised Plan"). The Department requested comments on all Program Administrators' revised plans by August 25, 2008. Request to Increase Funding for Residential Energy Efficiency Programs, Hearing Officer Memorandum (August 1, 2008). Comments were received from Associated Industries of Massachusetts ("AIM"), the Attorney General of the Commonwealth of Massachusetts ("Attorney General") the Conservation Law Foundation ("CLF"), the Massachusetts Department of Energy Resources ("DOER"), Environment Northeast ("ENE"), the Low-Income Energy Affordability Network ("LEAN"), and Wal-Mart Stores East, L.P. ("Wal-Mart"). The Department requested reply comments on all Program Administrators' revised plans by September 5, 2008. Request to Increase Funding for Residential Energy Efficiency Programs, Hearing Officer Memorandum (August 27, 2008). Reply comments were received from National Grid, ENE, LEAN, and The Energy Consortium ("TEC"). The evidentiary record includes six responses to information requests.⁴

On September 10, 2008, the Department approved the 2008 Plan as initially filed, finding that, among other things, the Company (1) calculated program cost-effectiveness

The Letter Order, which was sent to Massachusetts electric and gas energy efficiency Program Administrators was issued in response to a request made to the Massachusetts Department by the Department of Energy Resources in a letter dated July 16, 2008.

On its own motion, the Department moves into the evidentiary record of this proceeding the Company's response to Information Requests DPU 1-1 through DPU 1-4; DPU 2-1; and DPU 2-2.

consistent with the Energy Efficiency Guidelines, and (2) demonstrated that each program included in the 2008 Plan was cost-effective. National Grid, D.P.U. 08-8 at 25 (2008). The Department stated that it would address the Company's Revised Plan, which proposes to increase spending on residential heating programs for the 2008 winter season, in a subsequent Order. Id. at 2. This Order addresses National Grid's Revised Plan.

II. 2008 REVISED ENERGY EFFICIENCY PLAN

A. Introduction

In the Department's July 25, 2008 Letter Order at 1, we directed the Program

Administrators to submit a proposal "that will allow for the implementation of the maximum achievable level of cost-effective expenditures on residential heating programs for the remainder of 2008." In support of their proposals, the Department directed the Program

Administrators to submit the following information: (1) the energy efficiency programs that are targeted at residential heating end uses; (2) the additional dollars the company projects it can spend in a cost-effective manner; (3) the constraints that limit the additional dollars the company projects it could spend cost-effectively; (4) the additional number of residential customers that will be served; (5) the additional kilowatt-hour ("kWh) or kilowatt savings that will be expected to be achieved; (6) the dollar savings on monthly bills that additional participants will be expected to realize; (7) the effect on the cost-effectiveness of the applicable

With the exception of a portion of Section VII and Section VIII, the Department also approved the Settlement. D.P.U. 08-8, at 31.

programs; and (8) the company's proposed mechanism for recovery of incremental costs. <u>Id.</u> at 2.

B. Revised Plan

The Company proposes to increase spending by \$4 million⁶ on the following programs:⁷

- The residential conservation service ("RCS") program (including the heat loan program), which is an audit and installation program available to any residential customer upon request;
- The Energy *Wise* multi-family retrofit program, which provides installation of energy efficiency measures and consumer education to multi-family customers regardless of whether the residence is electrically or non-electrically heated;
- The low-income single family appliance management program, which serves any customer whose income is at or below 60 percent of the state median income and has a baseload consumption over 10 kWh per day. Customers receive education regarding energy use by household appliances, the installation of energy measures, and a household appliance audit; and
- The small business services program⁸, which provides direct installation of energy efficient lighting and non-lighting retrofit measures, including electric water heating, space-conditioning, refrigeration, and some custom measures.

This dollar amount does not include incremental shareholder incentives. Including shareholder incentives, the Company's proposed increase in its 2008 budget is \$4.33 million (Revised Plan at 1).

Other than budget increases, tThe Company states it proposes no changes to these programs (Revised Plan at 1).

The Company uses two alternate names to refer to this program – the small business services program and the small commercial and industrial retrofit program.

(Revised Plan at 1). Table 1, below, summarizes the information provided by the Company regarding the increased spending on these programs.

Table 1

Program	Additional Spending		Increased Savings		New Customers	Savings per	Benefit/Cost Ratio	
	\$	% Incr.	kWh (Annual)	% Incr.		month (\$)	2008 Plan	Revised Plan
RCS	1,500,000	36.7	986,000	26.0	1,430	7.94	2.99	2.87
EnergyWise Multi- family Retrofit	500,000	13.5	658,000	16.2	831	9.11	1.87	1.93
Low-Income Single Family	1,000,000	19.2	878,000	26.4	876	11.40	3.66	3.82
Small Business Services	1,000,000	16.6	2,662,000	20.1	159	235.1 1	3.78	3.90

(See, Revised Plan, App. A; National Grid's Reply Comments at App. A).

The Company states its ability to spend additional dollars cost-effectively is constrained by limitations in contractor infrastructure, noting that there needs to be sufficient lead time to train new contractors to perform the additional work resulting from increased funding (National Grid Reply Comments at 4). The Company states that it intends to request recovery

Program descriptions were obtained from National Grid's 2007 annual energy efficiency report, filed with the Department on August, 29, 2008. See Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, D.P.U. 08-44, 2007 Annual Report at 26, 28, 39, 71.

for any additional spending at the time it files its 2009 Energy Efficiency Plan (Revised Plan at 1).

III. COMMENTS

A. Introduction

The majority of comments were of a general nature, applicable to most or all of the Program Administrators' revised gas and electric plans. In addition, certain comments were specific to an individual Program Administrator's revised plan. General and company-specific comments are each summarized below.

B. General Comments

1. Introduction

AIM argues that the Department's request for increased funding for energy efficiency programs is an overreaction to a temporary rise in energy prices and, accordingly, that any increased spending should be delayed until 2009 (AIM Comments at 1-2). While the Attorney General does not challenge the need for increased energy efficiency funding to reduce low-income and residential customer heating bills this winter, she argues that the proposals fail to provide the detailed information required by the Department and, therefore, raise several substantive and procedural issues (Attorney General Comments at 3). For example, the Attorney General asserts that most proposals do not provide detailed budget increases, as required by the Department (<u>id.</u> at 4). Without such information, the Attorney General argues that the Department cannot ascertain where the additional funds will be spent, the extent that customers will benefit, or whether all proposed programs will be cost-effective (<u>id.</u> at 7).

DOER states that electric Program Administrators have proposed Revised Plans with significant increases of at least 30 percent over 2008 budgets for residential and low-income programs. However, DOER states that gas energy efficiency proposals vary widely (DOER Comments at 3). DOER argues that all gas proposals should increase budgets at least as much as electric proposals and that all cost-effective residential program budgets should be increased (id. at 3).

LEAN agrees that an immediate increase in energy efficiency program budgets is necessary. Furthermore, LEAN contends that the revised plans must be approved as soon as possible, otherwise the Program Administrators will be unable to implement the programs for this winter (LEAN Comments at 1-2). TEC notes that the cost to advance known projects will be minimal and will not diminish program cost-effectiveness and, therefore, recommends that Program Administrators advance current heating contracts by paying contractors overtime or a performance incentive to complete projects as soon as possible (TEC Reply Comments at 2).

ENE states that, by its calculations, there is a large spread in proposed budget increases among the Program Administrators (ENE Comments at 4). So that the revised plans are directly comparable, ENE recommends that the Department or DOER require the Program Administrators to submit identical spreadsheets that include proposed spending levels by customer class on a per customer and per unit of energy sold basis (id. at 3-4). ENE also states that, in some revised plans, budgets appear to be reduced and that the Department should not approve any reductions without good reason (id. at 4).

2. Funding Mechanisms

The Attorney General contends that many of the electric proposals contain insufficient detail about the sources of additional funding. The Attorney General states that, in order for the Department to approve funding mechanisms that collect additional money from customers, the Department must consider the effect on residential and commercial customers, and the availability of private or public funds (Attorney General Comments at 13, citing St. 2008 c. 169, § 11). In addition, the Attorney General argues that any new reconciling rate mechanism designed to recover incremental energy efficiency program costs must be subject to a hearing before the Department under G.L. c. 164, § 94 to establish just and reasonable rates (id. at 14-15, citing Consumers Organization For Fair Energy Equity, Inc. v. D.P.U., 368 Mass. 599, 606 (1975)). Wal-Mart also asserts that any request to approve a funding mechanism for incremental energy efficiency expenditures requires a thorough investigation that includes discovery and an evidentiary hearing (Wal-Mart Comments at 2-3). CLF suggests that any new energy efficiency tariffs or reconciling mechanisms should be considered by the Department in a separate proceeding (CLF Comments at 1-2).

DOER states that proposals to recover lost based revenues through various mechanisms is a departure from current practice that must be thoroughly reviewed by the Department (DOER Comments at 3). Finally, LEAN states that significant consumer savings can only occur if energy efficiency measures are fully funded and that funding is allowed to rollover from year to year (LEAN Comments at 2).

3. Scope of Proposed Energy Efficiency Programs

The Attorney General states that the revised plans go beyond the scope of the Department's directives. First, the Attorney General states that some revised plans include spending increases for programs that are not designed to reduce heating costs for residential customers (Attorney General Comments at 4-5). In addition, the Attorney General states that many proposals include new programs and program changes (id. at 11). The Attorney General argues that such program changes and new programs require more investigation than is allowed for in this expedited review (id. at 12). Accordingly, the Attorney General recommends that the Department deny any request to implement new programs or changes to existing programs (id.). Alternatively, the Attorney General suggests that Program Administrators could implement new pilot programs and other initiatives without Department approval if shareholders agree to fund the programs (id.).

Unlike the Attorney General, LEAN supports increased budgets for energy efficiency measures that are not directly related to heating (LEAN Reply Comments at 2). LEAN argues

For example, the Attorney General states that nearly all gas companies and some electric companies propose to change the income eligibility level from 60 percent to 80 percent of the Commonwealth's median income for low-income energy efficiency programs (Attorney General Comments at 11). The Attorney General argues that the low-income eligibility issue is the subject of <u>Investigation into Issues Affecting Low-Income Customers</u>, D.P.U. 08-4, and, therefore, should not be considered by the Department in the instant proceeding (<u>id.</u> at 11-12). In contrast, LEAN contends that there is no valid reason to deny proposals that make energy efficiency measures more affordable to households with incomes between 60 and 80 percent of the median income (LEAN Reply Comments at 2).

that any measure that reduces utility bills will help customers this winter (LEAN Comments at 2).

DOER states that, despite the Department's focus on approving only residential heating programs, it should consider allowing "stop-gap" proposals that address large unmet demand in cost-effective commercial and industrial ("C&I") programs (DOER Comments at 3).

However, AIM contends that funding for C&I programs should not be increased this winter because the lead time to implement these programs is long (AIM Comments at 3). Rather, AIM suggests that C&I programs should be considered for budget increases in 2009 (id.).

Finally, CLF agrees that proposals to increase funding for C&I programs should be deferred to proceedings on the 2009 energy efficiency plans (CLF Comments at 1).

4. Performance Incentives

The Attorney General suggests the Program Administrators forgo shareholder incentives to help customers this winter (Attorney General Comments at 11). DOER states that increased spending levels may necessitate adjustments to shareholder incentives to avoid inappropriate gains by Program Administrators (DOER Comments at 3).

C. <u>Company-Specific Comments</u>

1. Program Budgets

The Attorney General states that National Grid's Revised Plan lacks detail on incremental spending by program cost categories, constraints on program expansion, number of customers that will be served, and dollar savings that customers will experience each month (Attorney General Comments at 6, 10).

ENE also notes that National Grid's Revised Plan is lacking in detail, especially for the four-month period at the end of 2008. Additionally, ENE states that National Grid's proposed increases to low-income budgets are below 20 percent and, therefore, insufficient (ENE Comments at 5).

With respect to the Attorney General's arguments about the sufficiency of the data provided by National Grid in its Revised Plan, the Company argues that it provided the Department with detailed program budgets in its Revised Plan, which can be compared directly to the budgets provided in its 2008 energy efficiency plan filed in March 2008. Nonetheless, the Company states that it included augmented tables in its reply comments to provide the necessary details to fulfill the Department's original request (National Grid Reply Comments at 4-5). Additionally, the Company provided information regarding the constraints on increased spending by stating that its increased spending levels reflect limitations in contractor infrastructure that will affect the number of energy efficiency project completions that might be finished in 2008 (National Grid Reply Comments at 3-4).

In response to ENE's contention that its proposed low-income budget was insufficient, the Company argues that, including the proposed increase included in its Revised Plan, its overall budget for programs targeted at low-income customers is approximately \$11 million, far in excess of the statutory minimum of approximately \$5.6 million (National Grid Reply Comments at 6-7).

2. Scope of Proposed Energy Efficiency Programs

The Attorney General states that National Grid's proposal inappropriately included a revised budget for small businesses programs (Attorney General Comments at 5). The Attorney General recommends that the Department reject portions of the Revised Plans that will not provide relief or assistance to low-income and other residential customers this winter (id. at 6).

In response, National Grid argues that like residential customers, small business customers are also significantly impacted by high energy costs, and do not typically have internal staff to address energy efficiency opportunities (National Grid Reply Comments at 3). National Grid states that An Act Relative to Green Communities, Chapter 169 of the Acts of 2008 ("Green Communities Act"), requires investments in all cost-effective energy efficiency opportunities (id.). Accordingly, National Grid requests that it be allowed to increase spending for the Small C&I Retrofit Program as proposed in its Revised Plan (id.).

IV. ANALYSIS AND FINDINGS

A. Introduction

In order for the increased spending to provide benefits to customers during the 2008 winter season, it is necessary for the Company to accelerate implementation of cost-effective energy efficiency programs as soon as possible. Nevertheless, the Department is obligated to review the programs, applying criteria from the Energy Efficiency Guidelines, which require that the Company's energy efficiency programs be cost-effective. Energy Efficiency Guidelines §§ 4.2.1(a), 6.2.

An energy efficiency program is deemed cost-effective if its benefits are equal to or greater than its costs, as expressed in present value terms. The Department evaluates program cost-effectiveness using the Total Resource Cost ("TRC") test, which considers the costs and benefits to both the energy system and the participating customers. <u>Id.</u> at § 3. Energy system costs are comprised of two components: (1) Program Administrator costs, including costs to develop, plan, administer, implement, market, monitor, and evaluate programs; and (2) a performance-based shareholder incentive. <u>Id.</u> at § 3.2.2. Program participant costs include all costs incurred by customers as a result of their participation in the programs, net of company rebates and other incentives. Id. at § 3.2.3.

B. Revised Plan

The Company proposes to increase funding on three residential programs: (1) the RCS, (2) EnergyWise multi-family retrofit, and (3) the low-income single family - appliance management programs. Additionally, the Company proposes to increase funding on one small commercial program, the small business services program. As discussed in Section II, the Company provided information on: (1) the additional dollars it proposes to spend; (2) the constraints on its ability to spend additional dollars cost-effectively; (3) the additional kWh savings that will be achieved; (4) the additional number of customers that will be served (5) the dollar savings on monthly bills that additional participants will be expected to realize; and (6) the benefits/cost ratio with the increased spending levels. As shown in Table 1, the Company projects that each of these programs will remain cost effective at the increased spending levels. Revised Plan, App A, Supp. at 1. The Attorney General asserts, however, that the

In total, we find that the Company has provided sufficient information to enable the Department to review and assess whether the Company's energy efficiency programs in the Revised Plan are cost-effective.

In regards to the Company's proposed small business services program, the Department, in the July 25 Letter Order, directed distribution companies to limit additional spending proposals to residential heating programs, "in order to focus on the social costs and health risks associated with potential for increasing failure of residential customers to meet their winter heating needs." Accordingly, the Department rejects the Company's proposal to increase spending on its small business services program. The Company may propose increased spending for this program in its 2009 energy efficiency plan.

The Department concludes that, based on the information included in its Revised Plan reply comments, and responses to information requests, that, with the exception of the small business services program, the Company has (1) satisfied the requirements set forth in our July 25, 2008 Letter Order, and (2) sufficiently demonstrated the cost-effectiveness of the programs for which it proposes to increase spending. We direct the Company to submit a compliance filing, within seven days of the date of this Order, that includes revised budget information required by the Department's July 25, 2008 Letter Order, excluding the small business service program.

ENE argues that the Company's low-income budget proposal is insufficient (ENE Comments at 5). Considering the contractor infrastructure constraint identified by the Company and the low-income budget of approximately \$11 million that is almost double the statutory minimum of approximately \$5.6 million, the Company's proposal increase for its low-income program for winter 2008 is reasonable (see National Grid Reply Comments at 6-7).

C. <u>Cost Recovery</u>

The Company states that it intends to request recovery for the additional spending in its 2009 energy efficiency plan (Revised Plan at 1; National Grid Reply Comments at 5). 11 The Company will be allowed to recover the increased 2008 budget amounts approved in this Order through its 2009 energy efficiency budget. The Department expects that the 2009 energy efficiency budgets will include revenues from the SBC, FCM, RGGI, and, if necessary, from a fully reconciling distribution charge, pursuant to the Green Communities Act. See G.L. c. 25, § 20(d)(2). The under-recoveries from 2008 residential programs should be recovered from 2009 residential budgets. For low-income programs, 2008 under-recoveries should be collected from the 2009 budgets of all customer classes, based on each class' proportional contribution to low-income programs in the 2009 energy efficiency plan budgets.

Consistent with past practice, the Company may recover carrying costs associated with the amount by which its 2008 energy efficiency expenditures exceed its revenues. See Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, D.P.U. 08-8, at 31 (2008).

V. ORDER

Accordingly, after due notice, opportunity for comment, and consideration, it is

ORDERED: That, except for the small business services program, the revised electric energy efficiency plan for calendar year 2008 submitted by National Grid is APPROVED; and it is

<u>FURTHER ORDERED</u>: That National Grid shall comply with all other directives contained in this Order.

By Order of the Department,
/s/
Paul J. Hibbard, Chairman
/s/
W. Robert Keating, Commissioner
/s/
Tim Woolf, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within 20 days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of 20 days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971.